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INTERVIEWS, HONG KONG, 23 - 29 AUGUST 1982

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|----|---|---|
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| 2 | Wu Hon Fai & members of
of the Stock Exchanges | President Chinese Gold & Silver
Exchange Society. Chairman of
the Stock Exchange of Hong Kong Ltd
- the unified exchange of the
4 stock exchanges in Hong Kong. |
| 3 | Sir Philip Haddon-Cave | Chief Secretary, Government
Secreteriat |
| 4 | J. McGregor | Executive Director, Hong Kong
General Chamber of Commerce |
| 5 | Q.W. Lee | Vice-Chairman and General Manager
of <u>Hang Seng Bank Ltd</u> |
| 6 | E.Q. Launder | Chief Executive of Wadley Merchant
Bankers |
| 7 | M.G.R. Sandberg | Chairman, <u>Hongkong & Shanghai Bank</u> |
| 8 | P.J. Wrangham | General Manager, Hongkong &
Shanghai Bank |
| 9 | Cecil Chan | Executive Director, <u>Federation
of Hong Kong Industries</u> |
| 10 | Justin Yue | Acting Director of Trade |
| 11 | Burton Levin | US Consul General |
| 12 | John Pain | Executive Director, Hong Kong Tourist
Association |
| 13 | Hon J.H. Brembridge | Financial Secretary, Government
Secreteriat |
| 14 | Kenneth Kwok | Principal Government Engineer,
New Territories Development |
| 15 | Lau, Wong Fatt and
members of the Heung
Yee Kuk | <u>Chairman of New Territories,</u>
Heung Yee Kuk |
| 16 | Cha Cha Ming & Dr James
Wong | Chairman and Managing Director
of the China Dyeing Works Ltd. |

plus social meetings with other groups of businessmen, journalists, etc

Introduction by Alfred Sherman

I had better begin by disclaimers, listing what this report by Dr Elizabeth Cottrell of her visit to Hong Kong (undertaken on her way back from Taipei) does not presume to do.

This note does not purport to be a full assessment of the colony's present and future nor of the many strands which make up its public opinion. It is confined by a picture, as of late July, on the eve of the Prime Minister's visit to the Far East, of the mood and views of a cross section of the prominent business men, professionals and public people whose views, mood (and "animal spirits", per Keynes) will play a crucial role in determining whether Hong Kong grows or decays, and all that will follow from this.

The report is designed mainly to present a week's hard interviewing, note-taking and collection of relevant documents by a highly competent, sensitive and politically experienced analyst into the compass of a quarter of an hour's reading (with appendices to fall back on, should you wish to test the compilers assumptions). It is designed to supplement the meetings and hard questioning you will undertake on your own behalf, and to ensure that possible avenues of enquiry are not ignored by default.

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The study does not presume to assess the weight to be given to the Hong Kong question in the Prime Minister's visit to Peking, nor to assume the degree to which feelings of Hong-Kongers (as outlined in the report) can be expected to influence primeministerial input into the talks, let alone decide their outcome.

Within these provisos and self-denying ordinances, Elizabeth has prepared a useful contribution.

There are a number of considerations regarding the relationship between Hong Kong opinion and the Prime Ministerial visit which need to be posed.

First, several fortuitous events have combined to give the Hong Kong question greater emphasis than had been expected by either side when the meeting was originally mooted. Paradoxically many influential people in Hong Kong fear that the matter has been or could be inflamed by excessive publicity. Yet the self-same people will not hesitate to express their concern at the decline in confidence at present experienced and say that something should be done about it.

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They face a genuine dilemma: how to reduce the real threat to confidence without at the same time exciting the very fear which their ultimate aim is to obviate? This is characteristic of any crises of confidence anywhere at any time. Arguments for saying nothing and hoping it will go away are always attractive, but almost invariably misleading, because the measure to express disquiet is too strong to repress; and at worst the wrong people will have a monopoly of the stage.

Cross-purposes are intensified by the mercurial character of the Hong Kongers, an inseparable part of their character. Their moods go up and down with each event, with each rumour. Just as their Stock Exchange reflects movements in every other stock and commodity exchange. Their temperament is of the market, buying and selling, up and down, affected by what happened in New York and London.

The uncertainty regarding the leases has inter-acted with mercurial temperament and the up and downs of world stock markets as they affect Hong Kong stock prices and the Hong Kong \$. Hence, falls which would have taken place anyway, are deeper and recoveries less buoyant. Here is the confidence factor at work as a trend with trends.

Hong Kong has always experienced outflow of capital as well as inflow. Balance sheets of the Hongs and large Chinese firms show their world-wide growth of interests. At present, they could rightly argue, these world-wide interests strengthen their Hong Kong operations, bring back profits and provide world-wide opportunities for Hong Kong Chinese. True. But it also provides ways in which capital can be exported without the possibility of measurement, in which firms and individuals wishing to change the balance of investment between Hong Kong and "abroad" can do so rather like a man standing on two feet who shifts his weight from one foot to another.

With a decline in confidence and new investment, what happens is not always easy to notice, but what does not happen may be more important yet. Many Hong Kong industries could run along for the next fifteen years with their present plant and labour force. But to assure their long-term future they should be replacing that plant with much more modern automated equipment, they should be retraining workers and management. Imperceptibly, the go-getters in the Chinese world outside Mainland China look elsewhere to Singapore, Korea, Taiwan, even Hawaii and the USA. Hong Kong loses its edge.

This, too, cannot be measured. You will be able to feel from meetings, here as well as there, how much it is felt.

It will be argued, with some justification, that the very prospect of the prime-ministerial talks heightened expectations in HK and provided an additional source of increased uncertainty.

True expectations regarding what may come out of the talks in HK may be unrealistically high; but, by the same token, I think that they will magnify any positive outcome, if properly presented, to a point where it makes them happy and restores confidence pro tem.

The nub of the matter remains whether Dengxiaobing and his colleagues can be persuaded to be guided by enlightened self-interest towards a solution for HK which will allow workable economic and social arrangements until well into the next century. . . . The main obstacle to be overcome is emotional and ideological. First, the basic aspiration of all Chinese patriots since modernising revolutionary movements against the Ching dynasty began at the turn of the century, has been the revocation of the unequal treaties. On this issue, you will find no basic difference between the KMT and its one-time off-shoot, the Communists. Secondly, in the case of the Peking Government the free enterprise order in HI is anathema on principle, since it makes nonsense of their theory and practice alike.

Now it is widely argued among groups here sympathetic to the present regime in Peking (eg the FCO and its echoes in the quality press) that Deng and his colleagues in power are "pragmatic". It is worth asking what is meant by pragmatic, and what is meant by power.

Deng and his colleagues swallowed Marx-Leninism whole during their youth, and rose to power on it. The filtering mechanism in their consciousness prevents them from rejecting it in light of experience, least of all replacing it by a more coherent philosophy, even were one to hand. They simply make off-the-cuff adjustments and hope for the best. They know very little about how our world works. This flexibility is preferable to fanaticism (a better term than "pragmatism", which actually means judging ideas by their results) has its own in-built snags. One is the growing contradiction between theory orthodox Chinese communist on which the legitimacy of their regime and their personal power rests, and their preferred practice. Apart from leaving them without much of a guide other than hand-to-mouth expedients, flexibility leaves them vulnerable to rival groups inside the party, who are enabled to appeal to fundamentalism, "the old religion".

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Though Mao's widow and some close colleagues of hers are now in prison, a vast number of the fanatically nihilist "cultural revolution" cadres are still in office. It is difficult to see how they could be neutralised except by a civil war which would put the future of the party and possibly of a centralised Chinese state at risk. Hue is still hominally number seven in the hierarchy. Close observers of the Chinese scene in Tokyo and elsewhere see Deng Xiaoping enjoying a leeway of sorts, with limited freedom of manoeuvre, but still largely moreover, constrained.

Though the manic excesses of the "great leap forward" of the late 'fifties and the cultural revolution are historic even by world standards, Deng and his colleagues are equally responsible for measures which wrecked the Chinese economy, led to tens of millions of deaths, and ensconced their enemy, the USSR, on their Southern flank in Vietnam, when this could have been avoided. Not least as a result of prior acts and statements, Deng now finds himself in a cleft stick. He committed himself to the "four modernisations" and to the reunification of China, including Taiwan.

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His economic plans have had to be drastically cur-
tailed as the sums were done. This is particularly
dangerous since it impinges on the defence forces' modern-
isation programme. The defence forces, on which his power
rests in the last analysis, blame their defeat in Vietnam
onto inferior and out-of-date equipment (where ever the real
 balance of blame lies). Unless he can do much better for
 them, Deng's days are numbered. Yet to re-arm needs foreign
currency, most of which will have to be earned. (He failed
dismally to make any impact on Taiwan, which he is in no
position to invade for the foreseeable future).

To succeed he needs to bring about greater economic
liberalisation on the mainland to give HK its head in the
joint enterprise zone and beyond. But all these expedients
 are politically unpalatable to many groups of communists,
 and are liable to be used as a stick with which to beat
 him by Hua and those of the "cultural revolution" strata
out of prison, still ensconsed in party offices, media,
etc.

 Politicians in office are tempted to follow the path
 of least resistance, and to let tomorrow look after itself.
 Only the strongest-willed, farthest-sighted and best-advised
 among them do otherwise. Deng must be helped to understand
 that unless he takes the correct path over HK, whatever the
immediate political costs of doing so, he will be signing
 not only his own political death warrant, but that of his
tendency's and possibly that of a Communist China, even of
of a single Chinese state.

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In a sense, we are asking that Deng be a Chinese Margaret Thatcher, seeing political tactics as means of achieving necessary policy ends, not as an end in themselves. That is the yardstick by which I think history will judge us and him.

From what little I know, Deng is capable of appreciating the pros and cons when presented to him, and is not the kind of person to cut off his nose to spite his face, or even allow drift and procrastination to do it for him. To the best of my knowledge, Deng has not been presented with the true alternatives, at least not by late summer 1982.

Partly because of the autocratic structure of Chinese communist government, partly because McLehose and Craddock mishandled the situation in 1979 and then resiled too far after the inevitable rebuff, it has been increasingly difficult for anyone other than the Prime Minister herself to bring the realities to his attention. There were minor tasks which could have been done, not least to bring home to the Chinese (including those in HK) how little Britain earns from HK, and to improve communications inside the HK Government, between them and the people of HK and between the people of HK and London.

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But that is in the past. The meeting will be a turning point. Snags are too many to count. Will Deng be in office in two years time? Will any other of the dramatis personae? What new convulsions will Chinese Communism generate? Will HK pass the peak anyway, thanks of excessive government expenditure initiated by McLehose to win popularity which is slowing down their economy vis-a-vis Eastern rivals. The best we can do is to be aware of our ignorance, and remember the experts' records.

One last policy point which I have yet to see picked up. Because HK is a major communications centre, financial centre and Far-Eastern economic hub, other powers have a legitimate interest in its future, the USA and Japan included.

The USA wishes to see a strong China for the sake of the balance of power. China recognises this. The US Government is in a position to point out to Peking that were it to destroy HK, whether by sins of commission or omission, it would suffer economically as a result, and that if so, it could not expect the USA dip into its pocket to make good these substantial losses, even though China's economic stability and military development were affected. Washington is on reasonable terms with Peking, as such things go, having persuaded the Chinese Government to a sense of realism over Taiway. The Japanese Government, whose overall relations with Peking are good, inspite of occasional irritants, is in a good position to say the same thing. Neither would do so unless asked.

end of introduction

Now read on . . .